Washington State **NEWS**
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WASHINGTON TO RECEIVE $7.9 MILLION FINE MONEY IN WALL STREET SETTLEMENT ANNOUNCED TODAY

(Olympia: 04/28/03)—Under the terms of the final settlements announced today between securities regulators and Wall Street firms, Washington State stands to receive $7.9 million in fine money upon final acceptance of the terms of the agreement.

The settlements result from allegations of conflicts of interest at brokerage firms where analysts recommended stocks due to influence from their investment banking colleagues.

Washington's Department of Financial Institutions (DFI) has played a key role in the settlement of the analyst conflict cases since its inception last year.

Deborah Bortner, DFI's Securities Division Director, is in Washington, DC, for the settlement announcement. "The industry reforms agreed upon in this historic settlement will provide stronger protection for investors and will give investors confidence that they can return to our markets," she said. Bortner is a former head of NASAA (the North American Securities Administrators Assn.).

NASAA formed a small, high-level committee in April 2002 to negotiate a settlement with Merrill Lynch on behalf of the 50 states, the District of Columbia, and Puerto Rico. The three-person team included a lead enforcement attorney from DFI's Securities Division.

That committee was also heavily involved in drafting the global settlement documents including the structural reforms that would be acceptable to all 50 states, the District of Columbia, and Puerto Rico. The Merrill Lynch case arose from the New York Attorney General's investigation into analysts' conflicts of interest.

Soon after forming the negotiating team, NASAA established the Analysts Task Force, assigning eight states, including Washington, to be "Lead States" to investigate the 10 largest investment-banking firms in the United States to determine whether the analyst conflicts uncovered in the Merrill Lynch investigation were systemic.

These investigations were a joint project with the Securities Exchange Commission (SEC), the National Association of Securities Dealers (NASD), and the New York Stock Exchange (NYSE). DFI's Securities Division was appointed Lead State for the US Bancorp Piper Jaffray investigation. (Piper Jaffray, based in Minneapolis, is a full-service securities business.)

Last December, after reviewing over 170,000 e-mails, sifting through more than 500,000 hard copy documents, analyzing 200 separate research reports and taking a number of depositions, the Washington State Securities Division entered into an agreement in principle with US Bancorp Piper Jaffray to settle allegations relating to analyst conflict of interests.

The Minnesota firm agreed to pay $32.5 million, $25 million of which constitutes fines, penalties or disgorgement for retrospective conduct, $7.5 million of which will be used for the purpose of funding independent, third party research which shall be made available to its customers.

Using a distribution formula based primarily on population, DFI's Securities Division received more than $810,000 from the Merrill Lynch settlement, and expects to receive over $7.1 million as a result of the settlement with all of the investment banks investigated by the Task Force.

"Our state treasury and state pension funds are suffering because of the sharp market drop caused, in part, by misleading research analysis on Wall Street," said Bortner.

"The $7.9 million in fines is small recompense for the harm this behavior has done to residents of the State of Washington. However, the money will help the state in these difficult economic times. In a fraud on the market, everyone is harmed," she concluded.

Under the terms of the settlement the firms are also required to distribute $30 million over a period of five years to the Investor Protection Trust (IPT) to fund investor education initiatives on the state and national levels. The IPT is an established charitable organization with experience handling settlement funds and a history of investor education successes.

The 10 firms against which enforcement actions are being announced today are:

- ✓ Bear, Stearns & Co. Inc. ("Bear Stearns")
- ✓ Credit Suisse First Boston, LLC ("CSFB")
- ✓ Goldman Sachs & Co. ("Goldman")
- ✓ Lehman Brothers, Inc. ("Lehman")
- ✓ J.P. Morgan Securities, Inc. ("J.P. Morgan")

- ✓ Merrill Lynch, Pierce, Fenner & Smith, Incorporated ("Merrill Lynch")
- ✓ Morgan Stanley & Co. Incorporated ("Morgan Stanley")
- ✓ Citigroup Global Markets Inc. f/k/a Salomon Smith Barney, Inc. ("SSB")
- ✓ UBS Warburg LLC ("UBS")
- ✓ U.S. Bancorp Piper Jaffray Inc. ("Piper Jaffray")

Pursuant to the enforcement actions, the firms will pay a fine and disgorgement funds [$875 million], as well as funds for independent research [$432.5 million] and, with respect to seven of the firms, funds for investor education [$80 million]. The fines and other funds total approximately $1.4 billion, and a listing of the amounts being paid by each of the ten firms is attached.[1]

Under the terms of the settlement, the firms will not seek reimbursement or indemnification, including but not limited to payment made pursuant to any insurance policy, with regard to all penalty amounts that the Respondents shall pay pursuant to the settlement. In addition, the firms will not seek a tax deduction or tax credit with regard to any federal, state or local tax for any penalty amounts that the firms shall pay pursuant to the settlement.

In addition to the monetary agreement, the firms have entered into two separate agreements with the regulators that relate to prospective conduct regarding the functioning of the research and investment banking departments at the firms, the terms for a review of the firms' research, the distribution of

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[1] Merrill Lynch has previously paid $100 million in connection with its prior settlement with the states relating to research analyst conflicts of interest.

independent research, as well as restrictions on allocations of securities in "hot" Initial Public Offerings ("IPOs") to executive officers and directors.

To implement this global settlement, the SEC today filed an action in Federal District Court and, concurrently, the NYSE and NASD completed disciplinary proceedings pursuant to the disciplinary procedures of their respective organizations. At the state level, model settlement agreements have been finalized and the NASAA Board of Directors has recommended that all states accept the terms of the agreements.

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For more information, view the Consent Order with U.S. Bancorp Piper Jaffray, Inc.

Payments in Global Settlement Relating to
<u>Firm Research and Investment Banking Conflicts of Interest</u>

Firm	Retrospective Relief * ($ millions)	Independent Research ($ millions)	Investor Education ($ millions)	Total ($ millions)
Bear Stearns	50	25	5	**80**
CSFB	150	50	0	**200**
Goldman	50	50	10	**110**
J.P. Morgan	50	25	5	**80**
Lehman	50	25	5	**80**
Merrill Lynch	100**	75	25	**200**
Morgan Stanley	50	75	0	**125**
Piper Jaffray	25	7.5	0	**32.5**
SSB	300	75	25	**400**
UBS	50	25	5	**80**
Total ($ millions)	**875**	**432.5**	**80**	**$1,387.5**

* Fines and disgorgement funds.
**Payment made in prior settlement of research analyst conflicts of interest with the states securities regulators.

April 28, 2003